Unitil
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March 1, 2004

Mary L. Cottrell, Secretary
Massachusetts Department of Telecommunications and Energy
One South Station, 2nd floor
Boston, MA 02110

RE: D.T.E. 04-1: An investigation by the Department of Telecommunications and Energy regarding the assignment of interstate pipeline capacity pursuant to Natural Gas Unbundling, D.T.E. 98-32-B (1999).

Dear Ms. Cottrell,

Fitchburg Gas and Electric Light Company d/b/a Unitil ("Unitil") submits the following response to the Department of Telecommunications and Energy's (Department) Order in the above-referenced docket. As directed by the Order, one copy is being provided to the Hearing Officer, Caroline M. Bulger, and four copies are being provided to Andreas Thanos, Assistant Director Gas Division. Please date-stamp the additional enclosed copy and return in the stamped envelop provided.

In its January 12, 2004 Order, the Department sought comments on whether the market was sufficiently competitive to modify the existing mandatory method for upstream capacity assignment. The order identified five areas for comment. Unitil is subject to the Department's capacity assignment requirements and submits comments on the five areas, as well as additional comments on relevant factors for the Department's consideration.

Department Questions

(1) The number of transportation customers:

At the end of 2003, Unitil had a total of 14,863 firm customers; 22 are transportation-only customer and 15 of those customers have Unitil capacity assigned to their supplier. Since the onset of the capacity assignment program, a total of 74 separate customers have taken transportation-only service at one time or another. At any one time the maximum number of customers taking supplier service has been 48, with 37 of those customers having Unitil capacity assigned to their supplier. No residential customers have been transportation-only customers.

(2) The number of marketers:

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There are five suppliers that are registered with the Department that have conducted retail business within the Unitil service area since the beginning of the program. As of the end February 2004 three suppliers are still active in Unitil's service area, however Unitil has been informed that one of those suppliers will cease serving customers at the end of their current customers' contracts.

(3) The percentage of the market that has converted to transportation service (both in volume and number of customers):

As of January 2004, 0.155% of all customers (1.45% of all non-residential customers) representing 9.15% of total sales for that month were taking transportation-only service. The largest percentage of customers taking transportation-only service was in January 2002 when 0.32% of Unitil's customers representing 15.13% of gas sales for the month took that service. The gas sales volume has ranged from a low of 6.33% of total sales in November 2003 to a high of 25.38% in August 2001. The supplier service volumes have averaged 13.29% of total firm sales for the period September 2000 to December 2003.

(4) Developments at the FERC regarding this matter:

The primary FERC issue affecting Unitil's retail choice program has been the implementation of Unitil's only interstate pipeline supplier's (Tennessee Gas Pipeline Company ("Tennessee")) FERC tariffs. In the fall of 2000, Unitil found it necessary to file a complaint with the FERC (Docket No. RP01-87) to be able to implement the Department's mandatory capacity assignment program without losing its ability to use the "quick storage" withdrawal rights in Tennessee's tariffs. (Quick storage allows for complete depletion of storage in approximately 90 days, where loss of these rights would result in a withdrawal schedule of 120 days or more.) While Unitil was ultimately successful in its complaint in this docket (see 96 FERC ¶ 61,006, issued January 10, 2001), it was not able to count on the quick storage withdrawal for the winter of 2000/01.

One particular area of Tennessee's tariff that does not work effectively with the Departments regulations concerns the renewal of current pipeline contracts or the acquisition of new contracts for existing pipeline capacity through an "Open Seasons" process, if the contracts will be for more than one year in duration. The Open Season process is Tennessee's tariff's procedure to obtain the highest value for pipeline capacity, consistent with its other tariff provisions. Tennessee will post the available capacity for open bidding on its electronic bulletin board with a specified date and time that the bidding will close. Tennessee does not allow for bids contingent on state regulatory approval for existing pipeline capacity. The bidder must be willing to enter into a contract in accordance with its bid if Tennessee notifies the customer that it has won the bidding. The bids must include the price (up to maximum tariff rates), volume and duration of the bid. If all bid terms were the same, a bidder offering the longer term would be successful. For example, if a Massachusetts LDC had been granted prior Department approval to bid for a term that was not to exceed five years, it is possible that the LDC could lose even existing capacity if someone else successfully bid a term longer than five years.

While that result may be acceptable if the successful bidder was willing to keep that capacity's delivery to the LDC's city gate station, there is no current mechanism to prevent the capacity from being moved to a different delivery point on the Tennessee system. If that capacity is part of a capacity-constrained area on the pipeline, the LDC that lost the bid may have difficulty meeting firm retail load. However, having the LDCs sign up all their pipeline capacity for very long terms just to assure firm delivery may be inconsistent with the Department's goals to develop the retail markets. Please see the additional comments on this topic below.

(5) Mechanisms by which the LDCs can include other affected market participants in an LDC's capacity planning process:

In the past Unitil has contacted suppliers by letter, phone and e-mail notifying them in advance of significant events, such as pipeline capacity renewal commitments, and described Unitil's intended course of action. We have actively sought input from these suppliers, either through e-mail, phone or via face to face meetings. Since Unitil's load is relatively small, there has been very limited interest in meetings, and some input has been received through phone discussions or e-mail. The general feedback has been that Unitil should renew interstate transportation and storage contracts for "as short a time as possible." One mechanism which could provide broader communication opportunities would be for the Massachusetts LDCs to conduct a one-day seminar open to all segments of the market to discuss each LDC's present and future capacity needs. While such meetings may be conducted individually by the larger LDCs and may be well attended, a one day all-LDC meeting could allow more effective communication to the market participants for the smaller LDCs. Such a meeting could be conducted effectively in late August or early September, just prior to each winter season.

A similar one-day meeting in late February or very early March could focus on gas operational issues that developed during the winter. In Unitil's case, many of the interstate pipeline contract renewal decisions must be made by the end of March each year (see discussion below) and thus the late winter meeting could serve a dual purpose for Unitil.

<u>Additional Unitil Comments</u>

(1) Unitil's next long-term transportation contract decision must be made by March 31, 2005. Any changes to the Department's regulations or procedures resulting from this proceeding will be taken into account if the decision is issued prior to that time. This particular contract is a long-haul (Gulf Coast) Tennessee contract which represents 15% of Unitil's city gate transport capacity. Unitil has additional pipeline contracts up for renewal in each of the following two years.

(2) To date, when Unitil has assigned capacity to suppliers, it has used a literal "slice of system," which includes multiple pipeline contracts with multiple meter receipt points into the Tennessee system. This process can result in a supplier being assigned as little as 1 Dth at a given meter supply point, which essentially makes the assigned capacity of no use to the supplier. Unitil proposes that additional flexibility in capacity assignment be allowed, so that a proximate slice of system is allowed. This flexibility would allow LDCs the ability to assign larger amounts of each capacity block at a single delivery point, resulting in capacity that could actually be of some use to marketers (each block of capacity that Unitil assigns is 200 Dth, and each block must be further broken down into long-haul, market area, New England delivery and local peaking components). This can be done in a way that the cost of capacity assigned to the supplier is equal to or nearly equal to a literal slice of system.

(3) The Unitil area is served by one lateral off Tennessee's main lines. The firm contracted amount of the lateral to Unitil's city gate is about 95% of Tennessee's firm design amount, leaving limited capacity before physical capacity would limit deliveries without physical pipeline construction. In addition, Tennessee's main line capacity back to market area storage is nearly fully contracted for, especially during the wintertime. If, in an Open Seasons auction, some of the current firm capacity to Unitil's city gate was awarded to another supplier, and that supplier successfully requested moving the delivery point to another meter point not located on the lateral, it is possible that firm interstate pipeline deliveries to the Unitil city gate could be restricted. This potentially could lead to significant supply problems if Tennessee had no additional main line capacity back to supply points that could be placed under contract by Unitil or a marketer supplying customers in the Unitil service area. There is currently no way of "tagging" this capacity for retail customers through the Tennessee Open Seasons or contracting process, since the retail customers would (normally) not be the party contracting with Tennessee. Discussion needs to take place so that this issue does not become a significant weakness in the retail choice process overseen by the Department.

(4) During the collaborative discussions on capacity assignment, marketers were critical about company managed supplies, i.e., those supplies that were bundled with gas and could not be unbundled so that the LDC told the marketer how much company managed supply would be delivered to the marketer at city gate each day. Unitil had very limited company managed supply volumes. The final company managed supply ends March 31, 2004, and therefore will no longer be an issue for marketers working behind Unitil's city gate.

(5) While the level of marketer retail activity in Unitil's service area has been somewhat limited, Unitil has had a good relationship with those marketers that have been active. The marketers' performance on meeting their customers' supply needs and operating within the balancing allowance,

including during the design cold weather in January 2004 and the 10-day cold snap ending January 16, 2004 (which exceeded slightly Unitil's previous 10-day cold snap design conditions) has been very good. Marketers that serve customers with no capacity assigned by Unitil (for new firm transport-only customers) met their customers' needs and delivered 4.0% of all city gate gas delivered on January 15, 2004.

Unitil appreciates this opportunity to comment on the Department's capacity assignment process and expects to participate in any future proceedings the Department may have on this subject.

Very truly yours,

David K. Foote
Senior Vice President
Fitchburg Gas and Electric Light Company d/b/a Unitil

Cc: Caroline M. Bulger, Hearing Officer
Andreas Thanos, Assistant Director Gas Division (4)